



Office of Health Plan Administration  
P.O. Box 720724  
Sacramento, CA 94229-0724  
(916) 795-2515; FAX (916) 795-4105

April 18, 2006

## **AGENDA ITEM 10**

**TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE**

- I. SUBJECT:** Self-Funded Plans 2005 Year-End Financial Report
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

### **Background**

The purpose of this report is to provide the Board with an update on the status of the financial reserves for the self-funded health plans. This report covers the calendar year ending December 31, 2005.

### **Anticipated Experience Due to Reserve Draw-downs for 2005**

The 2005 plan year produced results in line with expectations. A portion of the excess reserves were used to reduce the 2005 premiums. As a direct result of this approach, the loss ratio for the entire year combined for the four self-funded programs was 105%. This resulted in an underwriting loss of \$54.5 million for the year. Assets above the actuarial reserve requirements, as of the end of 2005, were \$159 million.

The two supplement plans to Medicare had annual loss ratios above break-even. PERS Choice supplement had a loss ratio of 115% while PERSCare supplement had a loss ratio of 119%. This was consistent with the results through the first three quarters of the year. All four self-funded plans experienced an underwriting loss for the year. This magnitude of loss ratios was anticipated as the reserve draw-down for the rate determination reduced the premiums charged for 2005.

The following attachments provide more detailed financial and trend information.

### **Attachment 1**

This attachment displays results for 2005 and the prior two years. Although the supplement plans continued with high loss ratios (119% for PERSCare and 115% for PERS Choice), this represented a decrease from the six months values. This had been expected due to the combination of a deliberate use of surplus and the Medicare effect where supplemental plans generally experience their highest claim volume early in the year as Medicare deductibles are paid for by the supplemental plans.

## **Attachment 2**

This attachment presents the per-member-per-month (pmpm) medical and pharmacy claims costs for five quarters beginning with the fourth quarter of 2004.

The PERS Choice supplemental plan had an increase in year-to-year medical costs of 20% - from \$90.75 pmpm to \$108.49 pmpm. The PERSCare supplemental plan had an increase in year-to-year medical costs of only 4% - from \$114.51 pmpm to \$119.40 pmpm.

It should be noted that pharmacy claims stayed consistent with an increase at 8% pmpm across all four plans.

## **Attachment 3**

Attachment 3 presents asset values and asset changes for the self-funded health plans.

The PERSCare plans experienced negative cash flows with most of it being in the supplemental plan (line 2). Additionally, the overall reserve requirement increased by \$29.5 million (line 17 - line 16). Almost all (\$29 million) of this increase came from the PERS Choice basic plan (line 11 - line 10). As of June 30, 2005, total Program assets (line 15) exceeded the actuarial reserve (line 17) by over \$159 million. The asset level continues to be positive.

## **Attachment 4**

This attachment highlights the relative strength of the assets compared to the actuarial reserve.

The overall level of the assets remains strong. The year end asset level overall met expectations. There will be some variance in individual plan results. The PERS Choice supplemental plan had assets lower than projected. However, this should not pose a problem in maintaining adequate reserves for the PERS Choice basic plan through 2006.

## **Attachment 5**

Attachment 5 shows the overall enrollment trend in the plans as increasing. The PERSCare basic plan enrollment continues to decline, which places this plan at a greater risk of volatility as plan participation continues to decline.

Staff, working with input from actuarial consultants, continues to monitor this situation.

## **Looking Forward**

The overall financial position of the Program remains strong. The PERS Choice basic plan is below projections while the other three plans are running close to what had been anticipated. Rate actions by the Board have provided a safety margin for the 2006 plan year. Even with the unanticipated claim volume in the PERS Choice basic plan, assets continue to be sufficient to fund benefits and to maintain adequate reserves.

**V. STRATEGIC PLAN:**

This directly relates to Goal X: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

**VI. RESULTS/COSTS:**

This item is presented as information only.

---

Richard J. Krolak, Chief  
Office of Health Plan Administration

---

Terri Westbrook  
Assistant Executive Officer  
Health Benefits Branch

Attachments